AGRICULTURAL FINANCE REVIEW

Report

to the

Ontario Minister of Agriculture and Food

March 1991

Constituency Office Addresses/
Bureau de circonscription
617 Notre Dame Street
Belle River, Ontario
N0R 1A0
(519) 728-4100
Fax (519) 728-3149

82 Erie Street South
Ridgetown, Ontario
N0P 2C0
(519) 674-0966

Ontario

LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

PAT HAYES, MPP/Député
Essex-Kent

Queen's Park Office Address/
Bureau de Queen's Park
Parliamentary Assistant to
the Minister of Agriculture
and Food
801 Bay Street
Toronto, Ontario
M7A 1A3
(416) 326-3061
Fax (416) 326-3213

March 14, 1991

The Honourable Elmer Buchanan
Minister of Agriculture and Food
Legislative Buildings, Queen's Park
Toronto, Ontario
M7A 1A3

Dear Sir:

On behalf of the Agricultural Finance Review Committee, I am pleased to submit our report.

We were asked to gather public input on the financial challenges confronting Ontario farmers and develop recommendations.

I would like to take this opportunity to express my appreciation to the committee members Ellen MacKinnon, MPP - Lambton, and Fred Wilson, MPP - Frontenac-Addington.

Yours sincerely,

Pat Hayes

Pat Hayes
Parliamentary Assistant to the Minister
Chair, Agricultural Finance Review Committee

TABLE OF CONTENTS

Summary....................1

Committee's Mandate and Activities....................4

Current State of Agriculture
- Economic Context....................6
- Fiscal Context....................9
- Program Context....................10

Summary of Submissions....................14
- Targeting....................14
- Interest Assistance....................16
  - Crop Insurance Based Program....................16
- Long-Term Credit....................18
  - Fencing....................18
  - Recycling Rural Funds....................19
  - Farm Pool....................20
  - Agribonds....................22
  - Credit Unions....................22
  - Mortgage Insurance....................23
- Rural Development....................24
- Federal - Provincial Harmonization....................25
- Farm Management....................26
- Consumer Promotion and Education....................28

New Approaches....................29

The Committee's Recommendations....................31
1. Short-Term Relief Program....................32
2. Long-Term Financing....................33
   - Private Mortgages....................34
   - Financial Institutions....................35
3. Rural Development Programs....................37
4. Co-operative Ventures....................38
   - Crop Insurance Based Loan Program....................39
   - Co-operative Farm Equipment Use....................40
   - Producers Finance Associations....................40
5. Farmer Education and Investment Counselling....................41
6. Expanded Credit Union Role....................41
7. Consumer Education....................42

The Next Steps....................43

Appendix - List of Presenters

Summary

The Agricultural Finance Review Committee was appointed by the Minister of Agriculture and Food, the Honourable Elmer Buchanan, to gather public input on the financial challenges confronting Ontario farm families. The committee held public meetings in 11 locations in November and December 1990 and also accepted written briefs.

This report represents the committee's findings and recommendations. As background information, it also describes the current economic, fiscal and program climate for agriculture and provides an overview of the public input.

The committee found that Ontario farmers are no longer prepared to accept conventional analysis and conventional solutions to their financial problems. Innovation, in many cases bold innovation, is required.

Farmers want to return to a system of co-operation that would not only respect individual aspirations but also foster the well-being of the community. The committee is in tune with this new thinking. Its recommendations are designed to encourage more co-operation, more self-help and more community-based solutions to the problems of agricultural finance.

The committee supports the call of farmers across Ontario for government assistance to cushion the impact of high interest rates. Over the longer term, the committee agrees that government should encourage the recycling of rural savings into farm investment and community development. In addition, the committee endorses the view that steps must be taken to improve the financial and management skills of Ontario farmers.

The committee calls for government action in seven specific areas:

1. <u>Short-term relief to help farm families cope with current economic conditions</u>.

2. <u>Long term programs to recycle the savings of retiring farmers, other rural residents and financial organizations into agricultural lending at reasonable interest rates and on flexible terms</u>.

3. <u>Long term programs to channel rural and urban savings into rural development projects</u>.

4. <u>Government assistance for co-operative programs by rural individuals and organizations to strengthen the economic viability and security of farmers</u>.

5. Government support for innovative educational and counselling programs to equip farmers to make better investment decisions.

6. Legislative action to enable credit unions to play a greater role in agricultural lending.

7. Initiatives to raise consumer awareness of the importance of purchasing Ontario grown products.

The committee believes these new approaches will improve the financial health of agriculture and create more stability in rural communities. The recommendations should also generate a greater impact for the government dollars devoted to agriculture.

Committee's Mandate and Activities

Low commodity prices coupled with high interest rates are creating hardships for thousands of Ontario farm families and rural businesses. In one of his first official actions, Ontario Minister of Agriculture and Food Elmer Buchanan launched an Agricultural Finance Review to meet these challenges.

A special committee of three MPPs was assigned the task of obtaining public input. Pat Hayes, (MPP Essex-Kent) and Parliamentary Assistant to the Minister, chaired the group. Ellen MacKinnon (MPP Lambton) and Fred Wilson (MPP Frontenac-Addington) were the other members of the group.

The committee held public meetings in November and December 1990 at 11 locations around the province – Casselman, Kingston, Peterborough, Alliston, Listowel, Brantford, Ridgetown, Stanley (Thunder Bay area), New Liskeard, St. Catharines and Toronto. In all, approximately 120 briefs were presented at the meetings and an additional 25 written submissions were filed.

The public consultation process centred on three questions posed by the committee:

– What are the main factors that limit profits in farm and rural businesses?

– How great a limiting factor is the cost and availability of credit?
– What role(s) should the Ontario government, farmers and rural communities play?

The committee has carefully considered all submissions, reviewed the comments at the meetings and analyzed the issues. This document is the committee's report to the minister.

Current State of Agriculture

The Economic Context

Despite a substantial injection of public funds in the last five years – more than half a billion dollars in 1989 alone, for example – Ontario farmers continue to experience low incomes and economic uncertainty. Business failures in agriculture remain at a socially unacceptable level.

Realized net farm income in Ontario dropped 17 per cent in 1989 and five per cent in 1990. It is expected to fall a further 15 per cent in 1991. Farmers in this province are caught in a squeeze between high borrowing costs and low commodity prices.

Farm families are uniquely vulnerable to high interests rates because agriculture is an extremely capital intensive industry. Output depends heavily on fixed assets like land, buildings and equipment – assets normally acquired with borrowed money.

Bank prime interest rates averaged 14.3 per cent during the first 10 months of 1990. As the Ontario Federation of Agriculture noted in its brief to the committee, farmers paid as much as three per cent more.

Even though the prime rate has declined somewhat to 11.75 per cent as of February 1991, the spread between U.S. and Canadian interest rates is still of the order of four to five percentage points. There is little evidence to suggest that this spread will narrow in the near future. This places Ontario farmers at a competitive disadvantage in international markets.

The burden of indebtedness does not fall equally in the farm community. Interest rates on debt contracted before 1970 were around six per cent, while in the 1980s interest rates were consistently above 10 per cent and short term rates peaked above 20 per cent in the early 1980s.

As a result, veteran farmers have had their debt largely erased by inflation and now enjoy high equity levels. In contrast, beginning and developing farmers are struggling and many recent entrants have been forced out of agriculture.

In 1990 approximately one quarter (23 per cent) of Ontario farmers had equity levels between 10 and 75 per cent. Of this group, nearly half (44 per cent) paid more than $15,000 in interest during the year.

Many low equity farmers require off-farm income to handle their debt loads. Typically, farm families now depend on off-farm employment to meet the greater portion of their living expenses.

Prices for many commodities are affected by international conditions. In 1985 the United States shifted its grain policy, from being the seller of last resort to aggressive global marketing. This has resulted in a permanent downward shift in Canadian and Ontario grain prices.

The rapid increase of the Canadian dollar since 1988 - from U.S. 70--73 cents to U.S. 84-87 cents – has further depressed Canadian and Ontario grain and oilseed prices. The upward trend has also reduced the prices of commodities which are priced in the U.S. market (such as cattle and hogs) or are sold in competition with U.S. imports (such as most fruits and vegetables).

The Canada-U.S. Free Trade Agreement and changing market conditions have led some food processors to curtail their purchases of Ontario produce and in certain cases to close plants. These adjustment pressures have jeopardized the livelihood of many farming families engaged in growing crops that would normally be profitable.

On top of these human factors, a succession of weather-related crop failures have hurt growers in some regions of Ontario.

Fiscal Context

The Agricultural Finance Review took place at a very difficult time for Ontario government finances.

In October 1990 the Treasurer disclosed that the $23 million budget surplus projected by the previous government had deteriorated to a projected deficit of $2.5 billion. The downturn is due in large part to the effect of the recession on both revenues and expenditures. Corporate and sales tax revenues are falling while social assistance costs are rising.

Looking ahead to the upcoming 1991-92 budget, the Treasurer observed that the impact of the recession will continue. Provincial revenues will suffer from the economic slowdown, the decision not to levy the provincial sales tax on the GST, and the federal cap on transfer payments to the provinces. This last item alone will cost Ontario a further $940 million in reduced revenue in 1991-92.

On the expenditure side, the government is determined to pursue anti-recessionary measures and undertake urgent social and economic reforms. Yet it will be difficult to increase revenues in a recession and the size of the provincial deficit must be taken into account. The Treasurer has stressed that the spring budget will have to balance all these competing pressures.

Program Context

The climate for Ontario farming is shaped by a variety of federal and provincial programs.

Recent ad hoc programs of the federal government have tended to focus on the grains and oilseeds sectors. While these programs apply to farm-fed grains, grains and oilseeds alone make up about one seventh of the farm cash receipts of Ontario farms.

The safety net programs now being introduced will also have a positive but limited impact. The Gross Revenue Insurance Plan (GRIP) for grain and oilseed and horticultural producers does not address farm debt problems.

Many farmers believe that the existing crop insurance system for most fresh market fruits and vegetables does not meet the needs or expectations of growers. Many farmers criticize both the affordability of premiums and the level of coverage.

National supply management programs cover a large proportion – about one third – of Ontario agriculture. These farmers and their families enjoy a relatively high level of income stability and financial security.

Indications are that the national tripartite stabilization programs for red meats – funded by the federal and provincial governments and producers are working quite satisfactorily. However, the Ontario Cattlemen's Association reports that Alberta and Saskatchewan have targeted their provincial subsidies to red meat production. This has partially contributed to a 40 per cent decline in cattle feeding in Ontario in the last four years.

Past Ontario credit subsidy programs have tended to favour large lending institutions, such as banks and the federal Farm Credit Corporation (FCC). Private lenders have been viewed with suspicion, despite evidence they tend to provide credit at lower interest rates and on more flexible terms than do large institutions. In addition, the committee heard numerous representations that a portion of the interest subsidies ostensibly earmarked for farmers has leaked to institutional lenders.

The federal government appears to be reducing the role of the Farm Credit Corporation as a lender of long-term funds to farmers. At present, the FCC is the single largest farm mortgage lender in Canada. The prospects for the FCC to expand into medium and short-term credit are almost nil.

In recent years, the ministry has been more receptive to private lenders. This is widely viewed as a positive shift which should be encouraged.

The Ontario Family Farm Interest Rate Reduction (OFFIRR) program, the major relief program in the late 1980s, covered short, intermediate and long-term debt. It provided rebates to cut interest rates to as low as eight per cent. The program applied to farmers with at least 10 per cent but no more than 75 per cent equity in the farm and family net worth of less than $1,110,000.

However, farmers enrolled in government loan guarantee programs (such as the Ontario Farm Adjustment Assistance Program) were required to discharge their guarantees before receiving OFFIRR subsidies. Many observers feel this linkage was contrary to the spirit of OFFIRR and may have contributed to the liquidation of some farm businesses.

Financial rules and regulations are causing some problems. A major issue is the fact that quota cannot be taken as security, according to a recent court decision. This restriction can keep new farmers from entering supply managed sectors. Beginners need borrowed funds to purchase quota, but lack adequate security to back the loan.

Credit unions are prevented by commercial lending regulations from playing a greater role in agricultural financing. Among other requirements, a credit union must limit its loans to corporations and partnerships to 15 per cent of its assets.

The Ontario Feeder Cattle Loan Guarantee Program, announced in November 1990, provides a co-operative credit alternative for cattle feeders. Under the program 20 or more producers may form a feeder finance association for the purpose of negotiating cattle loans with traditional lenders. The association may be able to negotiate a lower interest rate since it will apply for one large loan, as opposed to several smaller loans.

The Ministry of Agriculture and Food (OMAF) provides a 25 per cent government guarantee on association loans. It also provides each association with a start-up grant of $10,000.

Many farmers criticized the process of third-party debt review, saying it does not mete out equal treatment to farmers who appear before Farm Debt Review Boards. The problem lies not with the individual boards (or chairpersons) but with the terms under which the boards operate.

Farmers undergoing debt review are unable to obtain short-term credit to continue with their operations. This only serves to worsen their financial situation and speed up liquidation. In addition, farmers often do not have access to independent legal or accounting services to prepare their cases properly.

Summary of Submissions

This section of the report highlights the main recommendations put forward at the public meetings and in the written briefs. It is meant not as a complete summary, but as an attempt to convey the tone and direction of the public input. There was a wide range of views expressed, including a few submissions that suggested there is little need for additional farm finance assistance.

A comment by the Ontario Federation of Agriculture (OFA) summed up the tenor of the meetings: "Farm credit costs in Ontario are seriously out of line with the Canadian or North American industry and with the long-run income rate of return. We believe a reasonable case can be made for interest rate assistance focused where it is needed and will prove effective. In the longer term, a farm credit policy must be put in place which allows Ontario producers to manage their financial risk and remain competitive."

Targeting

Several presentations argued that government benefits should be targeted only to those who need help most – the low equity, viable operations with high debt loads.

As the Ontario Cattlemen's Association put it, "Credit subsidies should be targeted to maximize the economic impact in Ontario rather than to touch the greatest number of people." The Canadian Bankers' Association identified beginning and developing farmers who are short of equity as the key group threatened by the availability and cost of credit.

The Christian Farmers Federation of Ontario (CFFO) argued that "Intermediate-term borrowing designed to change an enterprise...should be the primary focus of financial assistance...." It called for grants or "interest shielding" of investments to become internationally competitive, adopt new technology or win new markets.

Several presentations indicated that environmental projects should receive priority. The CFFO pointed out that environmentally friendly initiatives have unclear returns. Hence, funds are not available from existing financial institutions. The St. Willibrord Community Credit Union Limited recommended that "All government farm programs should have built-in incentives and/or requirements for long-term soil conservation and other responsible agricultural practices."

Interest Assistance

Approximately one half the briefs to the committee called for some sort of interest assistance. Most of these urged rebates to lower rates to the six to 10 per cent range. The OFA, for example, argued that "a well designed OFFIRR-like program would show this government's commitment to help Ontario farmers deal flexibly with high interest rates."

The National Farmers Union (Ontario Region) proposed a new crown corporation – the Rural Ontario Credit Corporation – to inject much needed operating capital into family farms and the rural community. The new agency would tap into established financial institutions to obtain funds for lending. Through the corporation, the province would guarantee loans and assume the cost of interest rates above six per cent.

CROP INSURANCE BASED LOANS

The committee found strong support across the province for an innovative proposal to extend short-term credit on the strength of crop insurance contracts. The Ontario Agricultural Commodity Council, which includes 18 farm organizations, has suggested a producer-run lending agency to serve cash crop farmers.

Under the concept, provincial government guarantees would enable the agency to obtain low-cost funds in the large-volume money market. These funds would then be lent to farmers at cost, plus administrative expenses. The crop insurance contract would be taken as security – assuring the lender of payment in the event that weather causes a loss in yield.

The agency would lend operating funds early in the planting season to farmers enrolled in the crop insurance program or in the new Gross Revenue Insurance Plan (GRIP) safety net program. Repayment would occur as the crop is marketed, with final payment due by June the next year.

The commodity council believes the savings could be substantial – ranging from around two per cent for many producers who borrow at banks, to three to four per cent for some producers who borrow through suppliers. Once fully operational, the agency could be expected to advance more than $50 million a year in short-term operating credit.

To get the program off the ground, the commodity council has requested a provincial guarantee of 98 per cent of the funds borrowed. It believes the government liability would be minimal, since the loans would be based on the security of crop insurance contracts and of stored crops after harvest.

Long-Term Credit

Perhaps the main agricultural finance problem is the inability to obtain long-term credit at stable and reasonable interest rates. Concerns centre around the amount of equity and collateral required by lending institutions, the fact that quota cannot be taken as security, and the oppressive level of interest rates.

The committee heard of farm families being torn apart by the problem of transferring assets to the next generation. The St. Willibrord Community Credit Union reflected broad sentiment with its call for "financial mechanisms for gradual transfer of farm assets at realistic values."

Various mechanisms were suggested at the meetings: direct government lending, creation of an Ontario Farm Credit Corporation separate from FCC, expansion of the Province of Ontario Savings Office, government purchase and leasing of land, and the use of government guarantees to attract new money to agriculture.

FENCING

The Ontario Cattlemen's Association proposed a government-funded lending program to install fencing on agricultural land as the basis for an expanded livestock economy.

The association sees two reasons to put more emphasis on livestock. First, forage is necessary to reverse soil degradation caused by continuous cropping. And second, livestock production is a way of adding value to grain production. If world grain prices remain depressed, as appears likely, it makes more sense to feed grain to livestock than to sell it on the world market.

Such a strategy would require rebuilding the infrastructure for beef cows and cattle feeding where fences have been removed to allow continuous crop production. The association recommends a tile drainage type program for fencing.

RECYCLING RURAL FUNDS

A speaker at the Listowel meeting, Gary Nelson, captured a widely held point of view. He offered an interesting historical perspective:

> The traditional cycle of local funds serving local needs had all but disappeared by the end of the 1970s. High equity farms and retiring farmers deposited their funds in institutions who transferred them into big city funds. When times were good, they flowed back easily to farmers who needed them....In the crisis that developed, funds available proved remarkably unsympathetic to the plight of low equity farmers....
>
> The creation of a mechanism to recycle funds in the rural community is fundamental. Rural investors understand the nature of the rural economy. They are prepared to make the adjustments required when times are tough. However, they

require a mechanism that provides the security they now get from institutional investors and yet maintains the integrity of the rural sources of funds.

The concept of recycling rural funds was highlighted in numerous briefs. Several ideas were proposed for encouraging this recycling:

– a "farm pool" of funds
– agribonds
– expanded credit union lending
– mortgage insurance

FARM POOL

The Credit Union Central of Ontario Limited and the Mennonite Savings and Credit Union (Ontario) Limited urged the government to create a pool of funds for the purpose of lending to the agricultural community. This "farm pool" would provide loans to farmers at reasonable, below-market interest rates. It would obtain funds from the savings of other farmers, who would be willing to accept a below-market return on their investment.

The credit unions suggest that retiring, cash-rich farmers could be attracted to invest in the farm pool by altruistic motives: "Many farmers are interested in helping other farmers."

The brief recommends a provincial income tax credit for investment in the farm pool. The tax credit would partially compensate investors for the lower rate of return on their money. This incentive would appeal to farmers and non-farmers alike.

Another source of funds for the farm pool could be Registered Retirement Savings Plans (RRSPs). The tax deduction for RRSP contributions would partially compensate investors for the lower rate of return.

Lending from the farm pool would be handled by credit unions. The government would guarantee loans where collateral security is inadequate but the farmer has sound character and the capacity to repay.

The Ontario Cattlemen's Association proposed a different way of creating a farm lending pool, urging the use of government guarantees to attract funds. "Credit costs in agriculture could potentially be reduced if private capital could be pooled and brokered to farm borrowers with some level of guarantee to investors from the Ontario government."

The association believes funds could be attracted by a rate of return similar to that for guaranteed investment certificates, which is well below the bank prime rate.

AGRIBONDS

A number of briefs called for an agribonds concept to encourage retired farmers to invest their savings in working farms. Agribonds would be supported by government tax incentives, subsidies or guarantees to the investor. With such government backing, the bonds would appeal to the rural community and also to urban social investors. Agribonds could be issued specifically for transfers within families or more generally to provide long term capital to farmers.

CREDIT UNIONS

In a brief to the committee, R.D. MacKenzie of MacKenzie & Associates in Inverhuron argued that more emphasis should be placed on "rural responsive" lenders such as credit unions. This opinion was widespread.

Mr. MacKenzie called for a loosening of restrictions on credit unions to enhance their ability to access and recycle rural investment funds. These changes would lead to more choice and real competition in agricultural financing.

Under the *Credit Unions and Caisses Populaires Act*, loans to partnerships and corporations are restricted to 15 per cent of credit union assets. The Credit Union Central of Ontario Limited

acknowledged that this ceiling is likely appropriate for most credit unions.

However, its brief contended that exemptions should be allowed depending on the membership base. Credit Union Central agrued that, for credit unions with a large proportion of farmers and farm-related businesses, this limit restricts their lending unduly.

The Credit Union Central also noted that legislation prevents credit unions from offering mortgages for terms over five years. In addition, insured guaranteed investment certificates cannot be issued to depositors for terms over five years. The brief argued that credit unions could make long-term financing available if they could offer borrowers 10 year mortgages and also offer depositors a 10 year savings option to fund these mortgages.

MORTGAGE INSURANCE

Mortgage insurance for farm loans was proposed as a further innovation to spark more long-term lending. This concept resembles the insurance coverage available for high-ratio loans in the residential housing market.

Currently, legislation limits credit union mortgages to 75 per cent of appraised value. To increase their margin of security, lenders generally won't approve a loan of more than 60 per cent. The

Credit Union Central believes first mortgages of up to 85 per cent of appraised value should be made available, with the farmer paying an appropriate insurance fee.

Rural Development

The link between the farm economy and the social fabric of rural communities was cited again and again during the public meetings.

The Credit Union Central and the Mennonite Savings and Credit Union proposed income tax credits to "mobilize funds from within the community for use by the community." Such tax credits would encourage people to invest in credit union funds paying no interest. The government support would offset the interest foregone.

Alternatively, it was suggested, the government itself could invest in credit union programs at a zero per cent return. The government money would be administered by the credit union and used for community initiatives, with the benefit of low-cost funds passed on to the community.

The Social Investment Organization suggested the use of government loan guarantees to stimulate rural investment, a concept based on the Saskatchewan community bonds initiated

recently. The Saskatchewan program guarantees bonds purchased for economic development in rural communities.

The Preservation of Agricultural Lands Society proposed Saskatchewan type bonds to finance fruitland preservation. The funds raised through the bonds would be used to purchase easements from land owners. Under an easement, the owner agrees to preserve land for food production and this commitment is registered on title. The purchase of easements would provide immediate compensation to growers while ensuring long-term land preservation.

A variety of co-operative ventures was suggested to foster rural development – such as finance associations similar to the cattle feeder program, buying groups and farm machinery co-ops.

Federal-Provincial Harmonization

Several representations to the committee called for more effective federal-provincial co-operation in agriculture.

The Canadian Bankers' Association has proposed enhancements to the federal *Farm Improvement and Marketing Co-operatives Loans Act*. A revised federal program, the CBA indicated, could offer a basis for rationalizing many provincial programs that attempt to meet the needs of beginning and developing farmers.

The Ontario Federation of Agriculture pointed out that the Farm Credit Corporation holds the largest share in Ontario's long-term farm credit market. Given the size of FCC's Ontario portfolio and its administrative network, the federal agency could play a key role in delivering provincial farm credit programs, in the OFA's view.

The federation calls on the province to explore joint initiatives with the FCC, provided the federal government is also prepared to make a financial commitment. In its brief, the FCC expressed a willingness to administer any provincial interest rate reduction program on long-term farm loans.

Farm Management

Many briefs underlined the importance of the human resources side of farming. As the Christian Farmers Federation of Ontario commented, "Past farm financing policies have tended to focus on the 'hardware' of agriculture: land, buildings, machinery and livestock, while paying only marginal attention to the 'software' "– the education, training and retraining of farm families.

The CFFO recommended public funding for local farm management clubs dealing with production and financial issues. This program should be delivered by rural partners.

The Credit Union Central and the Mennonite Savings and Credit Union concurred that "...training programs and opportunities are at least part of the solution to the problems facing agriculture, and are a far better investment than are grants, subsidies and cash handouts to individual farmers." These groups suggested an income tax credit for registration and completion of agriculture courses.

They also called on the government to organize regional "resource councils" including successful local farmers and other professionals, such as OMAF specialists. Farmers could approach these bodies for advice before hitting a financial crisis and also seek guidance in improving farming operations.

On this theme the Canadian Bankers' Association commented: "...the major difference in profitability from farm to farm is a function of the producer's ability to control costs....We conclude that the most valuable help for farmers with low levels of profitability would be assistance in learning cost control and management techniques."

Consumer Promotion and Education

Speakers at the public meetings strongly felt that the Ontario government should continue and enhance its promotion of Ontario food products both at home and in foreign markets. Also, briefs emphasized that consumers should be encouraged to understand the benefits of buying Ontario produce and supporting the farmer through the market place.

New Approaches

The consensus at the public meetings was that many of the programs of the past decade have been less effective than they could have been. New approaches are urgently needed.

As the preceding section outlines, many representations called for programs to encourage the recycling of farm and rural savings into agricultural and rural development. The committee endorses this concept.

Several speakers emphasized that credit unions should be allowed to play a larger role in agricultural finance. It was pointed out that credit unions not only have sound knowledge of agriculture in their respective localities, but also are in close touch with the communities and individuals they serve. The committee agrees. The committee recommends that the Ministry of Agriculture and Food work with the Ministry of Financial Institutions to bring about the appropriate regulatory changes.

Numerous proposals were submitted that would put in motion co-operative programs tapping the resources of government, farm organizations and local associations. The committee supports this direction.

It is the view of the committee that fostering agricultural development without a complementary rural development policy would be pointless. It would not meet society's needs and it would be an inefficient use of public resources. The economy and the community must evolve together.

There are numerous opportunities for the government to promote rural development using agriculture as a base. Policies and programs are clearly needed to focus special attention on rural development and employment.

External factors such as low commodity prices and high interest rates cannot be held entirely responsible for the financial problems farmers are facing. Many farmers – who are efficient producers and good managers in the normal course of running their operations – are in difficulty because they have made poor <u>investment</u> decisions in the past.

If farm finances are to be put on a stronger foothold, farmers themselves must make better investment and financial decisions. The government has a definite role to play in assisting farmers to do this. Innovative programs for financial and investment counselling must be developed so that farmers can obtain pragmatic advice before they get into intractable situations.

The Committee's Recommendations

The Agricultural Finance Review Committee proposes a multi-pronged approach to address the issues and problems identified during the public meetings and subsequent deliberations. It is abundantly clear that farmers are no longer willing to settle for conventional analysis and conventional remedies. Innovative solutions are called for.

These necessarily entail a certain amount of experimentation – even bold experimentation. The government should be prepared to accept at the outset that some experiments may fail, while others succeed.

The committee's proposals are listed below and described in some detail in the following pages.

1. **Short-term relief to help farm families cope with current economic conditions.**

2. **Long-term programs to recycle the savings of retiring farmers, other rural residents and financial organizations into agricultural lending at reasonable interest rates and on flexible terms.**

3. Long-term programs to channel rural and urban savings into rural development projects that would expand rural industries and increase and diversify employment.

4. Government assistance for co-operative programs by rural individuals and organizations to strengthen the economic viability and security of farmers.

5. Government support for innovative educational and counselling programs to equip farmers to make better investment decisions.

6. Legislative action to enable credit unions to play a greater role in agricultural lending.

7. Initiatives to raise consumer awareness of the importance of purchasing Ontario grown products.

1. Short-Term Relief

There is a need to provide interest relief for financially-stressed farm families for a short period of time in the near future. Typically, financially stressed families have large debts and consequently high interest payments, coupled with inadequate incomes.

Assistance should be based on a calculation of need. The formula should be designed to capture most of the farm families who need financial help.

The method of defining the recipient unit will have to be carefully considered. The committee recommends that the Ministry of Agriculture and Food enter into policy discussions with the Ontario Human Rights Commission to examine this issue.

The committee strongly recommends that family financial resources be employed for any assessment of need. This would permit the ministry to target the family farm as the unit receiving assistance.

Consideration should also be given to strengthening the farm debt review process to put all farmers on an equitable footing.

The committee believes that the primary goal of farm finance policy is the development of long-term community-based solutions, therefore we have focused on the following areas.

2. Long-Term Financing

The main thrust is to recycle the savings of retiring farmers and other rural residents to provide investment capital for new and expanding farmers. There are three ways of delivering

government assistance: tax breaks, interest subsidies and loan guarantees. The loan guarantee is the preferred option for the reasons explained below.

PRIVATE MORTGAGES

For retiring farmers, the wealth in their farm assets represents a pension fund, which they expect to provide a secure annuity. They are less interested in the rate of return than in the security of the annuity itself. Thus many retiring farmers would be happy to take back a mortgage from the purchasers of their property at a reasonable interest rate, provided the security of the annuity is assured.

In most instances, however, the vendor is relegated to taking back a second mortgage because institutional lenders, like banks, insist on holding the first mortgage. Clearly, holding a second or third mortgage involves a level of risk that a retiring individual can ill afford, particularly when it is the principal source of his or her income. The committee recommends the use of government guarantees to offset this risk.

Here is the trade off. In return for a guarantee on the vendor-take-back mortgage, the retiring farmer would be required to charge a reasonable interest rate, certainly not greater than the rate of return on guaranteed investment certificates (GICs). The

saving to the purchasing farmer could be substantial minus two to three per cent off the interest rate for conventional first mortgages and four to five per cent off the rate for conventional second mortgages.

According to estimates by the FCC some years ago, the risk to the guarantor (in this case the province) would be of the order of one per cent of the amount guaranteed. These numbers suggest a very high rate of "return" for the government dollar.

The committee believes there should be an element of self-policing and abuse prevention in any such program. Paper work must be kept to a minimum to avoid unnecessary expense.

It is expected that such a concept would enlist a high level of participation. As the program matures, alternate options for ensuring the security of the vendor's investment could be explored.

FINANCIAL INSTITUTIONS

This concept can also be applied to financial institutions, such as banks, trust companies and credit unions. One way to do this would be to guarantee both deposits and agricultural loans.

At present, the Canada Deposit Insurance Corporation and the Ontario Share & Deposit Insurance Corporation will guarantee

deposits for no longer than a five year term. Under this proposal, the province would provide full guarantees to depositors purchasing special <u>farm bonds</u> for terms of up to 10 years at banks, trust companies or credit unions.

The bonds would be marketed to retired farmers as well as rural investors and urban social investors with an interest in agriculture. They would be offered at below-market rates (similar to the rate mentioned above) to provide advantageous funds for agricultural lending.

While at first glance long-term deposits at below-market rates might seem unattractive to investors, these bonds are expected to have a "social conscience" appeal. The marketing campaign would have to place special emphasis on this aspect of the bonds.

At the same time, the province would provide a partial guarantee to the lending institutions on the long-term farm loans provided from these funds. The committee recommends a partial guarantee so that the institutions continue to carry some risk. The guarantee would cover only loans offered at below-market rates.

This concept is expected to be of particular interest to rural credit unions, which have a large rural depositor base. Since credit unions are locally controlled, the funds raised from the program

would be loaned to farms in the local areas served by these lenders. And because credit unions do not have extensive branch systems, they could put the program in place relatively quickly and easily.

One problem with this proposal is that the federal *Interest Act* permits borrowers to renegotiate their loans after five year terms. If interest rates have fallen, borrowers could insist on a lower rate when they renegotiate. As a result, financial institutions could become "mismatched" – holding long-term deposits at interest rates higher than the farm loans based on those deposits. The committee suggests that legal advisors carefully address this problem.

3. Rural Development

The objective of rural development programs is to foster a broad range of social, economic and environmental activities that are appropriate to the resources and aspirations of the rural community. Proposed projects should be considered for each rural community within the context of a development plan.

Under this concept, the source of investment funds would be rural development certificates, similar to the farm bonds described above. The government would guarantee the certificate, and in exchange the investor would accept a reduced rate of return. The certificates

would be offered to rural, urban and institutional investors, and the funds raised would be loaned for rural development projects.

Possible projects could include the processing of locally grown agricultural produce. Priorities should be identified through a local community development process. However, co-operative ventures should receive preference over individual ventures. And the local community should be obliged to put up not less than a prescribed percentage of the total investment.

If rural development projects are to succeed, they will require a high level of service support – including investment counselling, engineering and technical advice and, most important, marketing assistance. Some projects may fail, but this is the price of experimenting.

4. Co-operative Ventures

The committee received proposals for co-operative ventures that merit careful and sympathetic consideration by the government. These are outlined below.

CROP INSURANCE BASED LOAN PROGRAM

In brief, the program would make operating loans to cash crop farmers and take crop insurance as security for the loans. By creating a single desk agency, the sponsors of the proposal – the Ontario Agricultural Commodity Council – hope to raise large amounts of money at interest rates below prime. These dollars would be lent to farmers at the cost of funds plus administrative expenses.

The savings to participating farmers could be significant, especially to those who purchase their inputs on credit from supply companies. The program would also bring about a substantial measure of risk pooling.

In order to launch the program, the commodity council has requested a provincial guarantee of 98 per cent of the funds borrowed, estimated to be of the order of $50 million in the first year. The Agricultural Finance Review Committee is not in a position to determine if the 98 per cent level of guarantee is appropriate.

However, the proposal has substantial merit and should be given full consideration by the government.

CO-OPERATIVE FARM EQUIPMENT USE

The committee heard proposals on the co-operative use of farm equipment. The concept is attractive because it would lead to more efficient use of the stock of farm machinery in any given area, lower production costs and encourage mutual support among farmers. The committee believes this concept merits further examination.

PRODUCER FINANCE ASSOCIATIONS

Another model for co-operation is the Ontario Feeder Cattle Loan Guarantee Program. Several presentations to the committee praised this program, in which producers form associations to negotiate cattle purchase loans with lenders. An association may be able to obtain a lower interest rate for one large loan than individual producers could for smaller loans. The province guarantees 25 per cent of the value of association borrowings.

The committee supports this concept and believes that the government should continue to support this program.

5. Farmer Education and Investment Counselling

It is clear many farmers are in financial difficulty at least in part because of poor business management and bad investment decisions. There is a definite need to enlarge some existing programs aimed at improving business practices.

Informal "management clubs" have received wide support in many areas of the province. Through a process of group discussion and analysis, with the help of a business counsellor, farmers have the opportunity to learn from one another. This approach appears well suited to the farming community.

In addition, farmers – especially beginning or expanding farmers – could profit from sound advice before they make major investment decisions, such as buying land or an expensive piece of equipment. Experienced and successful farmers could play an important role in such a program. As one brief to the committee put it, "Why not turn the Farm Debt Review Boards into Farm Investment Advisory Boards?"

6. Expanded Credit Union Role

At present credit unions are prevented by legislation from loaning more than 15 per cent of their assets to corporations and

partnerships, including farmers. The committee believes this limit should be either removed or raised for agricultural borrowers. This change would enable those credit unions with a proven track record in farm lending to make more funds available to agriculture.

Consideration should also be given to lifting the five year limit on deposit terms, so that credit unions could offer deposits – and matching farm loans – for longer periods. This would have to be discussed with the Ontario Share & Deposit Insurance Corporation, since that body will now insure deposits only for terms of up to five years.

7. Consumer Education

There is no doubt that a higher level of public awareness would improve the economic security of Ontario farmers. Initiatives are needed to raise consumer awareness of the importance of purchasing Ontario-grown products.

The Next Steps

The Agricultural Finance Review Committee thanks all who participated in the public consultation process. The grassroots input has proven invaluable in formulating the above recommendations to the minister.

The committee has decided to encourage more co-operation, more self-help and more community-based solutions to the problems of agricultural finance. It believes this approach will lead to more stability in rural communities and also to a greater impact for the government dollars devoted to agriculture.

This report will be widely circulated. To ensure that the minister is aware of your reaction, please send any comments to:

The Honourable Elmer Buchanan
Ontario Minister of Agriculture and Food
801 Bay Street
Toronto, Ontario M7A 1A3

APPENDIX

LIST OF PRESENTERS

AGRICULTURAL FINANCE
REVIEW COMMITTEE

List of Presenters

November 28, 1990 - Casselman

Association Briefs

- Russell County Federation of Agriculture/ Fédération de l'Agriculture du Comte de Russell
- L'Union des cultivateurs franco-ontariens
- Renfrew County Cattlemen's Association
- Agricultural Management Group of Prescott and Russell/ Groupement de gestion agricole de Prescott et Russell
- Prescott Federation of Agriculture/ Féderation de l'Agriculture de Prescott

Personal Briefs

- Alain Lamond
- Martin Schneckenburger
- Arden Shneckenburger
- John Dalrymple
- Raymond Legault

November 29, 1990 - Kingston

Association Briefs

- National Farmers Union
- Lennox and Addington County Federation of Agriculture
- Quinte Apple Growers Association
- Grenville Federation of Agriculture
- Ontario Corn Producers, Region 2 (Eastern Ontario)
- Prince Edward Fruit Growers Co-Operative Ltd.

Personal Briefs

Barry F. Gordon
Dudley Shannon
Wayne Fingas
Peter MacKinnon

November 29, 1990 - Peterborough

Association Briefs

Peterborough County Cattlemen's Association
Peterborough County Pork Producers Association
Peterborough Milk Committee
Yurick Fur Farm
Victoria County Cattlemen's Association
Hastings County Federation of Agriculture

Personal Briefs

Hans Vink
Seldon Parker
Carl Lowery
Tom and Rose-Marie Kerr

December 5, 1990 - Alliston

Association Briefs

Simcoe Federation of Agriculture

Personal Briefs

Donald R. MacDonald

December 5, 1990 - Listowel

Association Briefs

- The Mitchell and Area Environment Group of Mitchell
- The Machinery Ring
- Bruce County Federation of Agriculture
- Perth County Federation of Agriculture
- Perth County Cattlemen's Association

Personal Briefs

- Lise Willems
- Gary Nelson
- Jack Flanagan
- John Van Dorp
- Jake Willems
- Alan Emerson
- Gerry Wallis
- Allen Wilford

December 6, 1990 - Brantford

Association Briefs

- Brant Cattlemen's Association
- Brant County Pork Producers
- Brant County Milk Committee
- Wentworth Cattlemen's Association
- Haldimand Federation of Agriculture
- Ontario Fur Breeders Assocation
- Ontario Fruit and Vegetable Grower's Association
- Central Erie Fruit and Vegetable Grower's Association
- The Norfolk Fruit Grower's Association
- Ontario Pork Producer's Marketing Board
- Haldimand Pork Producers
- Mennonite Savings & Credit Union
- St. Willibrord Community Credit Union

Personal Briefs

- Brian Griffith
- Hugh Zimmer
- Gabe Kocsis
- Clifford Leach
- Robert G. Good
- Bruce McBlain

December 6, 1990 - Ridgetown

Association Briefs

- Lambton Federation of Agriculture
- Neighbour Network
- Kent Federation of Agriculture
- Federated Women's Institutes of Ontario
- Elgin Federation of Agriculture
- Kent County Cattlemen's Association
- Christian Farmers Association of Kent County
- Chatham and District Chamber of Commerce Agriculture Committee
- National Farmer's Union
- Woodslee Credit Union Limited
- Kent County Pork Producers'

Personal Briefs

- Jim Sheldon
- Robert King
- Charles Diemer
- Perry and Julie Pearce
- David Santo
- Rick Cowan

December 11, 1990 - Stanley (Thunder Bay area)

Association Briefs

Thunder Bay Federation of Agriculture
Thunder Bay Cattlemen's Association
Kenora Soil and Crop Association

Personal Briefs

Harmann Hoerz
Leon Vercruysse

December 12, 1990 - New Liskeard

Association Briefs

Temiskaming Cattlemen's Association
East Nippissing & Parry Sound Federation of Agriculture
Temiskaming Federation of Agriculture
Temiskaming Grain Growers Association Inc.
Algoma Federation of Agriculture
Wikwemikong Unceded Indian Reserve
Temiskaming Sheep Producers

Personal Briefs

Roland Lacroix

December 13, 1990 - St. Catharines

Association Briefs

North Niagara Federation of Agriculture
Friends of Foodland
Ontario Grape Growers Action Committee
Preservation of Agricultural Lands Society
Ontario Tender Fruit Producers' Marketing Board
City of Welland
Niagara Credit Union

Personal Briefs

Vic Andres
John Kirkby
Jamie Slingerland
Carol and Harold Marten
Ted and Linda Roberston
William Falk

December 14, 1990 - Toronto

Association Briefs

Ontario Federation of Agriculture
The Canadian Bankers Association
Ontario Agricultural Commodity Council
Farm Credit Corporation of Canada
Ontario Beekeepers Association
Ontario Cattlemen's Association
Ontario Wheat Producers' Board
Ontario Corn Producers' Association

Rural Learning Association
Catholic Rural Life Conference
Christian Farmers Federation of Ontario
Ontario Flue-Cured Tobacco Growers' Marketing Board
Ontario Milk Marketing Board
Ontario Institute of Agrologists
Social Investment Initiatives and Rural Economic Opportunities
MacKenzie & Associates
Ontario Grain and Feed Dealers Association
Better Beef Ltd.
Credit Union Central of Ontario Limited
Ontario Chicken Producers' Marketing Board

Individuals

Al Ferri
Brewster Kneen

Briefs Received by Mail

Flowers Canada Ontario Inc.
United Co-Operatives of Ontario
Ontario Broiler Chicken Hatching Egg Producers Association
Norfolk Co-Operative Company Limited
Ontario Sheep Marketing Agency
Middlesex County Federation of Agriculture
Kent County Wheat Producers
Bruce County Cattlemen's Association
Renfrew County Cream Producers
Essex County Pork Producers
E.G. Salyniuk, Manotick
Wilson Farms, Vankleek Hill
Barry McCracker, Bath
Drain Poultry Limited, Tweed
J. Paul Rexe, Peterborough

Double M Farms, Stayner
Vinbro Holsteins, Wingham
Larry Biensinger, Listowel
Greg Romak, St. Catharines
Don Foster, Ilderton
David Williams, Croton
James Duffy, Allan Gray, John Kraayenbrine and Cliff Levitt, Lambton County
Ed Cikatricis, Ridgetown
Ron Noorenberghe, Kent Bridge
W. G. Sandercock, Ridgetown
David Langstaff
Chris Hoskin
Ottawa-Carleton Federation of Agriculture
Griffiths Country Meats/Griffiths Abattoir, Oxdrift
Eric and Cathy Hilton, Jarvis
Nellie C. Janosek, Ridgetown
Waterloo Federation of Agriculture
Lanark County Federation of Agriculture
Trunkey, Lane & Associates, North Vancouver, B.C.
David Reid, Renfrew
Northumberland Rural Child Care Corp., Brighton
George and Sylvia Bahro
David and Marilyn Cole

Ce document est aussi disponible en français

ISBN# 0-7729-8323-2